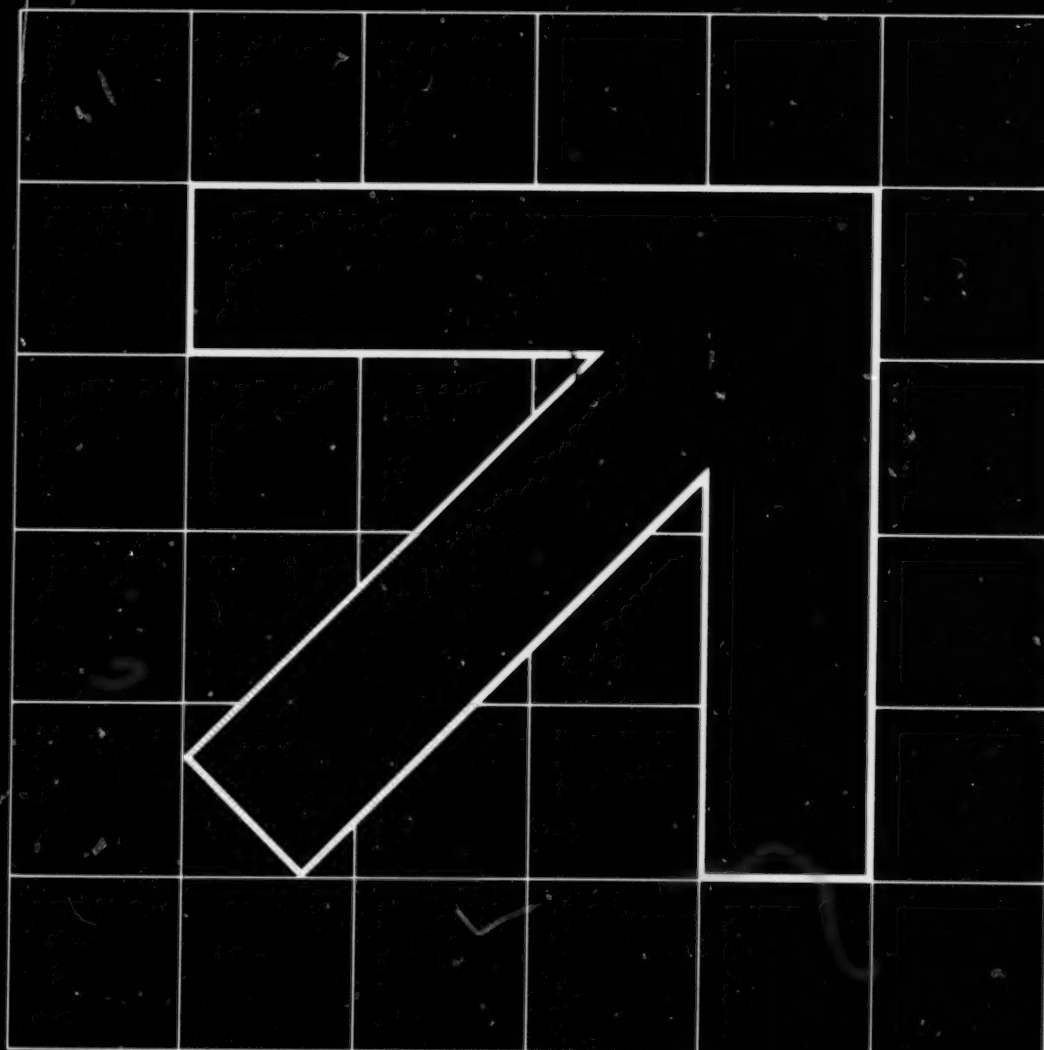




Gouvernement du Québec
Ministère de l'Énergie
et des Ressources

Québec's Forest Sector: Review and Outlook



Québec 

QUÉBEC'S FOREST SECTOR:
REVIEW AND OUTLOOK



FEBRUARY 1987

MINISTÈRE DE L'ÉNERGIE ET DES RESSOURCES

FOREST SECTOR

In the forest sector, 1986 was at once a very good year and a rather difficult one. It was a good year because a new forest system clearly supported by law was finally approved, and also because both lumber production and pulp and paper output were very encouraging; as well, exports were at a high level. Prices also improved.

On the other hand, it was a difficult year owing mainly to the context created by free-trade discussions, by the decision to impose a 15% surtax on Canadian softwood lumber exports and by increased competition on world markets.

There are indications that the context will be somewhat difficult for the forest industry in 1987, since the application of both the 15% surtax and the new forest system will certainly have an impact on its decisions and orientations. Therefore, there will likely be a transition period, although prices and markets for our forest products and by-products appear generally positive.

The ministère de l'Énergie et des Ressources intends to do its utmost to alleviate the negative impact of the prevailing context and to foster to the fullest the accelerated and harmonious development of our forest industry, as well as the implementation of the new forest system. At the same time, it will see that the sustained yield and regeneration of our forests are assured.

2. THE FOREST SECTOR

A diversified industrial sector

The forest sector consists of three main sub-sectors: logging (operations related to wood harvesting), the wood industry (sawmills, veneers, etc.), and the pulp and paper industry.

The industrial activity spawned by the forest sector is vital to the Québec economy. In economic terms, the wood and the pulp and paper industries rank first among Québec manufacturing industries. They account for 14% of jobs directly related to the forest, 15% of wages, 18% of exports and 3.8% of the gross domestic product.

The Québec forest sector comprises 57 pulp and paper mills, 645 commercial softwood and hardwood sawmills¹, and numerous other plants producing shingles, veneer, plywood, reconstituted boards, posts, spool-wood, laths, charcoal, essential oils and firewood.

In many regions, this sector is of primary importance. It is estimated that more than a hundred Québec municipalities depend almost exclusively on the forest industry for their very existence.

2.1 Logging

The 1984-1985 Harvest

In 1984-1985, the wood harvest in Québec as a whole reached 31.2 million m³, of which 24 million m³ came from public forests and 7.2 million m³ from private woodlots.

The volume of wood harvested varies from one year to the next depending on the economic situation. In 1984-1985, timber cut in public forests was distributed as follows: 14.2 million m³ on domanial forests, 9.4 million m³ on timber limits, and 0.4 million m³ on vacant land and other tenures. Of the total volume of timber cut, 7.3 million m³ were destined for pulp production, and 15.8 million m³ for sawmills. The reverse is true on private woodlots, where 4.1 million m³ of the timber cut was processed into pulp and only 3.1 million m³ was sold to sawmills. This activity generated approximately 11,000 forest jobs.

¹ Establishment in which timber from all sources is sawed and whose production is marketed by the owner himself.

2.2 The Sawmill Industry

Québec's lumber production capacity has remained virtually unchanged in recent years. Increased demand since 1983 has reestablished the utilization rate of this capacity at what is considered an acceptable level. Production reached about 85% of capacity in 1985.

Average selling prices for lumber in 1985 and 1986 rose slightly compared with those of the previous year.

The exceptional strength of the housing industry was the single most important factor in Québec's economic situation in 1985 and 1986. The 48,031 housing starts in 1985 resulted in the best year since 1977. Preliminary data for the first three quarters of 1986 show an increase of 31.32%, and the forecast for the year was that 58,000 housing units would be built.

Income from the sale of wood chips represented nearly 30% of total sales in Québec's lumber industry. Half of the roundwood entering sawmills came out in the form of chips. Production in 1985 was evaluated at over 4.2 million oven-dry tonnes. Throughout the year, prices fluctuated between \$72 and \$75 per oven-dry tonne.

In 1985, a favorable exchange rate, along with a high production rate and strong demand, enabled the industry as a whole to reach a very satisfactory level of profit. According to expert estimates, in 1986 the wood industry performed at least as well as in 1985, if not better.

2.3 The Pulp and Paper Industry

Following an intensive government-sponsored modernization program from 1979 to 1984, Québec's pulp and paper industry pursued its modernization phase until 1986, investing heavily to improve the production and productivity of its plants. The government assistance program alone provided for investments totalling \$1.3 billion.

During this time of economic recovery following the difficult period of 1982, Québec pulp and paper companies were able to turn a significant profit. Shipments were up 4.6% while the utilization rate of mills reached an average of 92%.

Newsprint, the most important sector of Québec's pulp and paper industry, increased its output capacity from 1.5% in 1985, to 4.4 million tonnes. Prices remained steady at \$535 US per metric tonne throughout the year. The utilization rate in 1985 reached 94%; for 1986, the forecast was that a high level of production would be maintained.

As for commercial pulp, in spite of an increase in demand, the rate of utilization fell in 1985 to 66 % owing mainly to a strike at the Domtar mill at Lebel-sur-Quévillon. The situation returned to normal in 1986.

The other sectors of Québec's pulp and paper industry followed approximately the same trends. Thus, all sectors showed an increase in shipments and in the rate of production in 1985 and 1986.

The profitability of pulp and paper companies remained stable in 1985 despite stagnating prices resulting from deflationary pressures. Thanks to the modernization of a number of mills, the closing of less productive units and the installation of new machinery, the industry became more productive and maintained its profitability in spite of certain inevitable cost increases, such as in manpower. However, prices and output began to rise in this sub-sector in 1986, which augurs very well for the coming months.

In 1984, sales and profits of Québec pulp and paper companies had risen respectively 23% and 151% compared with 1983, when profits had plunged. In 1985, profits were very satisfactory, rising by 5% to 6%.

In addition, if the current trend in the devaluation of the American dollar is maintained with respect to European (Scandinavian) currencies, Québec's competitive position on the American market should improve.

2.4 Investments

The forest sector, with its three main sub-sectors (logging, the sawmill and the pulp and paper industries), represents a very small part of Québec's total investments. On the other hand, in 1985 the sawmill and the pulp and paper industries captured respectively 3% and 20.5% of the overall investments in Québec's manufacturing sector. Exceptionally, the paper sector and its related industries fell to second place behind the primary metal industry, because of investments in the areas of smelting and refining.

INVESTMENTS IN THE FOREST INDUSTRY

The Sawmill Industry

In 1984 and 1985, Québec sawmills increased capital expenditures significantly, spending from \$51 million to \$61 million on the modernization of existing mills to allow them to remain profitable and competitive on international markets. Major projects, such as Bois de l'Est, which reorganized sawmills on the Gaspé peninsula and the reorganization plan for Forex Inc., were implemented. These projects and the increase in automation at various stages of production bear witness to the dynamism of the industry (see Appendix 1.)

The key projects in 1986 were those of J. E. Therrien, of the Groupe Normick-Perron in Amos with an investment of \$7 million; Forex in Val-d'Or and Malartic with \$4 million; Entreprises Barrette in Chapais with \$4.4 million; Matériaux Blanchet in Amos with \$2.5 million; and the Groupe Saucier in Champneuf with \$2 million. In 1985, total investments in capital expenditures and repairs reached \$143 million. Estimates for 1986 amount to \$123 million.

The Paper Industry

The level of investments in the pulp and paper industry in 1985 was the highest in Québec since 1979, with \$700 million in capital expenditures, \$200 million of which was earmarked for the pulp and paper modernization program. This represents an increase of 65% compared with 1984 (see Appendix 2).

Thus, considering the increase in the liquid assets of the paper companies, 1986 seems to have been an excellent year as regards investments in this sector.

PRIORITIES AND OUTLOOK FOR 1987

For the coming year, the Forest Sector of the MER has established some priorities and goals that will demand much effort, collaboration, coordination and information.

The priorities relate to the following goals: the setting up of the new forest system, whose legislative support was approved by the National Assembly in December 1986; forest regeneration and development; the broadening and transfer of knowledge; the protection of the forest environment; and support for private woodlots and industrial development.

(A) Setting Up the New System

The setting up of Québec's new forest system will take three years of sustained effort: the entire transition phase officially began on April 1, 1987 and will extend to March 31, 1990. The new law, which supports this innovative system, was passed unanimously in the National Assembly. Its principles and objectives were also approved by almost all the parties concerned. This project affects our entire society. It is thus worthy of serious effort and good will. Collaboration from all will then be required if we wish to ensure, on the one hand, the permanent development of quality forests and, on the other, the fulfillment of the wildlife, ecological, recreational, touristic and, of course, industrial and socioeconomic needs of Québec's population. We should not forget that about a hundred local communities depend almost exclusively on this resource, and that one worker out of ten is involved in the Québec forest sector.

The main features of the new system are the following:

1- *A New Sharing of Responsibilities between Government and Industry*

To this effect, the provincial government through the ministère de l'Énergie et des Ressources du Québec will set and control production objectives that will be integrated to the new timber supply and forest management contract. Each of the mills interested in obtaining a wood quota on public land will have to enter into such a contract.

The MER will also see that protective measures for the forest environment are established, revised, controlled and respected, in addition to ensuring the regeneration of forest areas inadequately regenerated at the time of the signing of the contract.

Shortly, the MER will provide a management handbook that will govern, among other things, management plans and reports, and the methods of

evaluating the effects of silvicultural treatments. It will continue, furthermore, to provide free of charge to the industry the saplings required for its reforestation program.

On the other hand, the industry will be responsible for the planning, implementation and control of work intended to respect the production goals set by contract. The sustained yield of the forest will thus be permanently assured. Harvesting also becomes an inseparable part of forest management.

2- *New tariffs*

The new Forest Act has set up a fee structure that is entirely new in Québec for mills that intend to obtain wood from public forests. These tariffs, based on the commercial value of standing trees, came into effect on April 1, 1987.

Despite the fact that the new forest system will entail additional expenditures for the forest industry, either in money or in silvicultural work evaluated at about \$80 million for 1987, the new tariffs will allow the Québec forest industry to cope more easily than the other provinces with the 15% surtax imposed on Canadian lumber exports to the U.S. Québec is now in the process of evaluating mechanisms that could benefit its forest industries and workers. The increase in prices resulting from the new tariffs - based on the commercial value - will be deductible from the 15% surtax.

3- *A New Industry: Silviculture*

The goal of forest regeneration and the principle of sustained yield leave the doors wide-open to an industry that has barely taken root in Québec: silviculture, which deals with the development and care of forests.

Reawakened by the reforestation program undertaken in 1984, the silviculture industry should be able to expand significantly in the months and years to come.

However, our training, proficiency and upgrading programs for present and future workers will have to be adapted. This will be necessary if we wish to have enough qualified workers to meet demands.

Changing the mentality of the population as well as that of workers and managers in both the public and private sectors will not be easy, but special attention must be given to it.

Besides, a review of the procedures, techniques, methods and equipment used in the management and development of forests must lead to an in-depth reevaluation of habits that are perhaps outdated, inadequate or ineffective. In the short term, new forest technology will have to be studied, adapted and integrated to develop our forest resources.

Just as the existing expertise in Québec's major energy programs, this future expertise should also become exportable and profitable for our society and the companies that wish to get seriously involved in it.

(B) Forest regeneration and development

The second priority of the forest sector will be to ensure the adequate regeneration of all forest areas and to increase the productivity of the forest environment.

To this effect, the MER intends to pursue the implementation of the reforestation program begun in 1984. Considering the overall reforestation effort, which totalled 155 million seedlings in 1986 and should reach 200 million in 1987, an increase from 97 million to 130 million seedlings on public lands alone, one has to admit that this is a remarkable accomplishment on the part of the provincial government, since it will mean an increase of 33 million seedlings (35%) in a single year. In 1988, the forecast is for 260 million seedlings, 10 million of which are to be hardwood. This program will therefore continue to develop.

To produce and plant these seedlings (not including silvicultural work) in 1986-1987, the MER worked with a basic budget of \$133.8 million, of which \$109.5 was allocated to public forests and \$24.3 million to private woodlots.

In addition, the MER will encourage industry to become more involved in the program. It will also promote the development of techniques to improve forest productivity and reduce comparable costs.

The estimated budget for 1987-1988 is \$149 million, of which \$117.5 million is for public forests, and \$31.3 million for private woodlots. The increase for that year would then be in the order of \$15.2 million (11%).

(C) Knowledge and transfers

The goals pursued with respect to the priority given to the development of knowledge and the intensification of technology transfer to industry, private woodlots and other parties, all involve in a concrete way the acceleration of the ten-year forest inventory, the setting up of ecological inventories, and the intensification of applied research and development within the MER. The department also intends to support basic research in Québec's universities and research centers.

The MER thus intends to accelerate technology transfer, as well as the transfer of knowledge and techniques, in addition to offering substantial support to research on acid rain and its impact on forest productivity.

(D) Forest Protection

With regard to protection, as of this year the MER wishes to establish as a priority the transfer of the expertise in advanced technology developed at the Société de conservation de l'Outaouais on the prevention, detection and fighting of forest fires to all the other regional forest protection agencies. The Maniwaki Technology Transfer Center will play a key role in this field.

The MER will also closely monitor the project to refit the CI-215 water tankers with turboprop engines.

On the other hand, the MER intends to get involved in the development of means or products that could serve as an alternative to chemical spraying in the fight against insects and diseases attacking Québec's forests.

To combat diseases and insects, the department will also see to the protection and closer monitoring of nurseries and other seedling production centers.

Finally, the department intends to foster the adoption of a policy for the use of pesticides in the forest environment.

(E) Private Woodlots

In connection with private woodlots, the MER will attempt to improve its expertise and its support to private owners and producers, and to cooperatives. In this respect, it will grant priority to direct assistance to individuals and foster the use of wood harvested on private woodlots for industrial processing. Public forests will then become a residual or auxiliary source of supply for the industry.

The department will also continue to provide free of charge seedlings produced for reforestation to owners of private woodlots. In 1986, the MER provided owners of private woodlots with 58 million seedlings. In 1987, it intends to distribute 70 million seedlings, an increase of 12 million, or 20%. This represents an increase of \$7 million (29%), since the 1986-1987 budget was \$24.3 million, including \$4.3 million for seedling production, and it will be \$31.3 million, including \$5.7 million for seedling production in 1987-1988.

The overall program of assistance to private woodlots in 1986-1987 was \$36 million; in 1987-1988 it will increase to \$40 million (11%).

(F) Industrial development

Giving priority to industrial development, the MER will pursue its efforts to assist the wood industry to modernize. In 1987, a sum of \$300,000 has been set aside for the completion of the Programme de consolidation et d'expansion de l'industrie du bois (an assistance program for lumber companies), while \$1.4 million were granted in 1986. This program was scheduled to end in March 1987.

On the other hand, the department will evaluate its support to any industrial project capable, not only of supplying adequate supplies of wood, but also of meeting the industrial needs of modernization and increase in production and productivity. As well, the project must be able to meet the socioeconomic needs of local and regional communities, and of Québec.

It will also take part in research in new processing techniques and in the development of new forest products.

Many industrial development projects are actually being studied, and decisions should be made in the coming months. Among the projects are the following: a new paper mill in Matane that would represent an investment

of about \$420 million, and the creation of 300 jobs directly related to the mill as well as 573 indirectly related ones; and a new paper machine for the F. F. Soucy paper mill in Rivière-du-Loup. This second project in the pulp and paper sub-sector would represent an investment of \$242 million and the creation of 100 directly related jobs and 438 spin-offs.

More than a dozen other projects are already under way in the same sub-sector and should proceed in 1987. Among them are the reconstruction of the Domtar mill in Windsor, for a total investment of nearly a billion dollars; the Donohue project in Clermont with \$170 million invested; and those of Abitibi-Price in Jonquière with \$110 million, Cascades in Port-Cartier with \$102 million, and Temcell in Témiscamingue with \$75 million.

Other projects are actually being studied in connection with the Abitibi-Témiscamingue socioeconomic regional summit to be held in April 1987.

In the sub-sector of sawmills and other wood industries, we should mention the medium density fiberboard mill project of the Panfibre company in Mont Laurier. This project, valued at \$34 million, should create approximately 82 jobs. The beginning of operations is planned for autumn 1987.

The current insecurity in the sawmill industry and the termination of the five-year assistance program for lumber companies (PCEIB), which had allowed the MER to inject \$4.5 million in sawing projects in Québec, will surely reduce the new expansion and modernization projects in this sub-sector during 1987.

It is possible, however, that the Domtar company will inject several million dollars in its Dolbeau mill and that the Crête company will do the same in Saint-Séverin.

We should also mention that the Panolac de Chambord company in the Lac Saint-Jean region could create a waferboard mill. This would represent an investment of approximately \$64 million, which could create 95 directly related jobs and 246 indirectly related ones.

We should point out that these priorities and goals of the MER (Forests) should influence in a positive way Québec's overall economic outlook as well as that of the forest sector.

Indeed, the prevailing context of the pulp and paper sub-sector seems quite good since an increase in prices, high demand in the United States, a

utilization rate of nearly 95% of installed capacity, and the completion of an investment program of more than \$1.3 billion to modernize Québec's mills, all presage a rewarding 1987.

It is to be hoped that the numerous collective agreements that are coming to term in the coming weeks will not slow down the expected growth.

With regard to the sawmill industry, the excellent lumber sales for housing construction and other purposes, and exports for 1986 will be difficult to duplicate in 1987. Indeed, a decline of 13,000 housing units is expected in 1987 in Québec, that is, from 58,000 housing units in 1986 to 45,000 units in 1987. At the same time, the 15% surtax on Canadian wood exports to the United States could create a state of uncertainty that might temporarily destabilize and cause insecurity in the sawmill industry, as well as in its development and investment plans.

Sustained demand in the United States, a more aggressive stance on certain overseas markets, steady or even lower interest rates, and a rise in the prices of oil and lumber could, however, improve the present context and forecasts.